The Nature Conservancy

POLICY BRIEF #3
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The Resilience Dividend

REFRAMING DEFORESTATION AND CONVERSION-FREE POLICY AS A EUROPEAN STRATEGIC PRIORITY

EXECUTIVE SUMMARY

Executive summary

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Amidst recent geopolitical uncertainty and ensuing political need to prioritise security and competitiveness objectives in Europe, it is critical to stay the course on other existing priorities. Over the past six years, European countries have developed an ambitious agenda to tackle their deforestation footprint, only for this work to be scaled down in light of fresh challenges to the continent. This can be seen most recently through the second subsequent delay of the EU regulation on deforestation-free products (EUDR) in November 2025. However, these delays obfuscate the reality that preventing global deforestation is closely tied to Europe's security and competitiveness. Utilising deforestation and conversion-free (DCF) measures, European governments can equip themselves with tools needed to stabilise increasingly volatile agricultural supply chains, mitigate financial, health, and illicit risks associated with deforestation, and strengthen geopolitical partnerships with key partners. Re-emphasising Europe's commitment to reducing global deforestation shouldn't be seen as an obstacle but a key strategic interest.

1. Deforestation and conversion cannot be viewed in a vacuum—they have a direct impact on European food, economic, financial, and health security

Deforestation and conversion of natural ecosystems have far-reaching security implications in Europe. European countries are highly dependent on imports of high forest-risk agricultural commodities such as soy, beef, palm oil, coffee, and cacao. These five commodities alone account for more than 20% of the EU's total agricultural import value. The UK shows a similar amount of dependency with more than 40% of its food coming from overseas. Yet, domestic production of these commodities is minimal or non-existent, creating reliance on very limited sources of supply from outside of Europe. As deforestation and conversion of natural ecosystems continues to impact production of these highly exposed commodities, the volatility of supply chains intensifies, increasing the likelihood of downstream food security implications on European citizens.

Shocks to European agricultural imports are already impacting economic stability and food supply. In 2022, Europe experienced multi-level disruptions to its supply chains resulting in an unprecedented food price inflation increase to 10.6% across the EU. In addition to the outbreak of the war in Ukraine, droughts in Latin America and shortages in soy supplies also contributed to this spike. Because Europe is so dependent on soybean imports from Latin America for livestock feed in the meat and dairy industry, major weather disruptions and decreasing yields due to land degradation expose its supply chains to future financial liability. Likewise, between 2022 and 2024, cocoa production disruptions in West Africa led to a record 400% increase in prices, impacting downstream consumers with 18% inflationary increase in prices in chocolate and resulting in job and business losses in the chocolate sector.

The overreliance of the European market on certain forest-risk agricultural commodity products from a very limited sourcing base presents a serious risk to its economic prosperity, but it also undermines European businesses and financial institution's competitiveness ambitions. The 2025 EU Competitiveness Compass warned that excessive dependencies and risks hamper European ambition for a competitive environment on the continent. Globally, deforestation-linked physical and transitional risks present an estimated USD 78,6 billion in potential financial liability to companies. Other estimates suggest that amongst top food and agricultural companies, lack of

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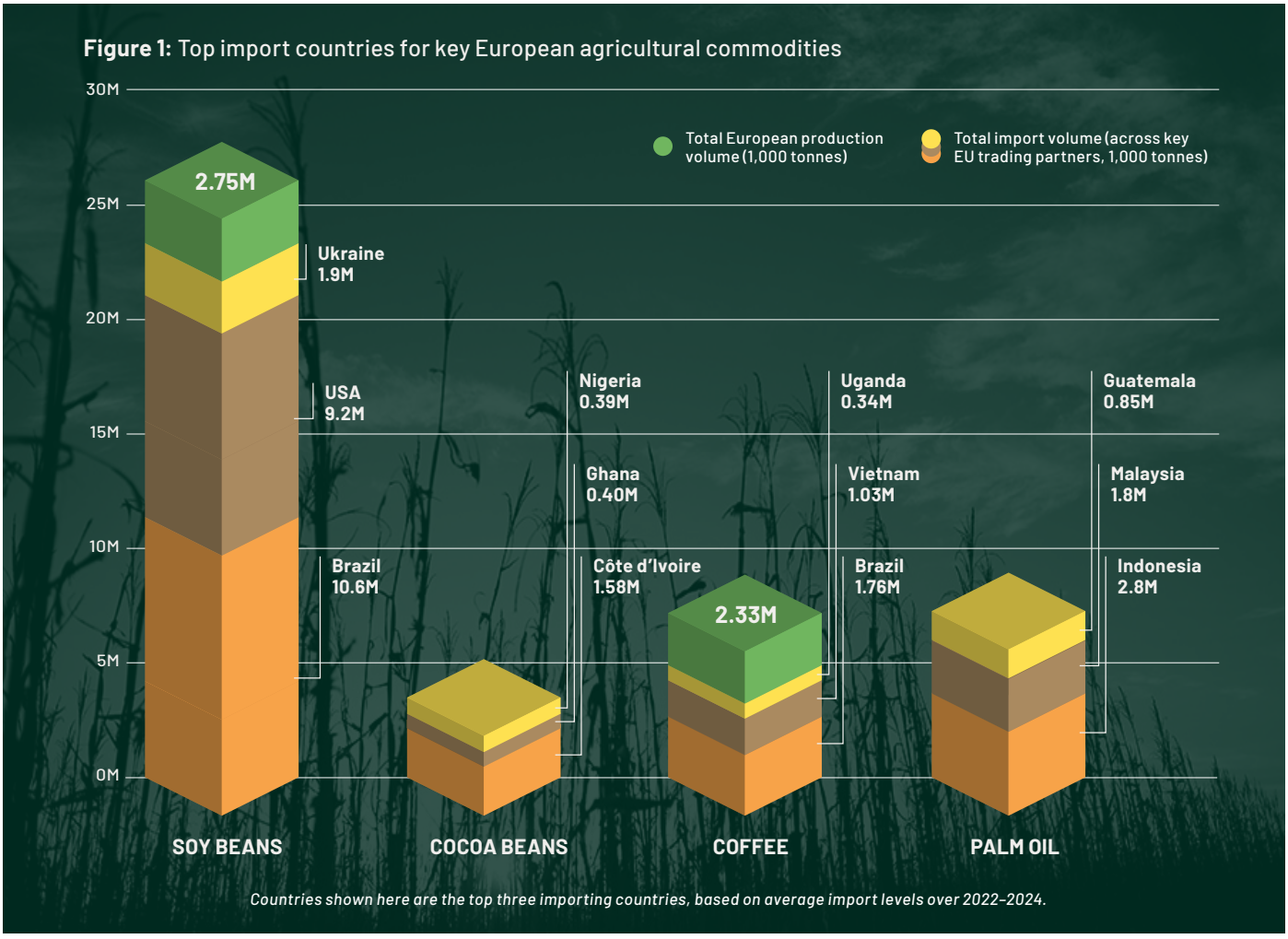
adequate mitigation strategies could result in a 26% reduction of their value by 2030. Lack of deforestation commitments coupled with continued financing of deforestation practices makes European private sector particularly vulnerable to supply chain shocks. Of the food and beverage companies that do report their risks, we see a median 76% dependence on just seven forest-risk commodities. The repercussions of these financial risks do not only affect the private sector: loss of revenue, sudden shocks, and financial instability will likely have a downstream effect on jobs and consumer confidence.

Risks arising from deforestation and conversion are not only limited to food security and lack of supply chain resilience. Conversion of natural habitat also increases the probability of new global health crises; 75% of new infectious diseases come from animals on agricultural frontiers where deforestation occurs, increasing the likelihood of another global health crisis. Deforestation is also heavily linked to environmental crime that directly impacts Europe. Destruction of the Amazon is linked to cocaine production and illegal gold mining, both of which flood European markets; while 94% of gold imports face high risk of illegality, undermining European financial systems. Illegal logging meanwhile continues to fund regional conflicts globally. Despite its best efforts, Europe continues to be a major destination of illegal timber, which ends up on the market either through lack of adequate governance or laundering. This highlights how many of European security challenges are tied back to deforestation and how addressing deforestation is at the centre of many of Europe's security concerns.

Figure 1: Top import countries for key European agricultural commodities



Source: UN Comtrade Database. Commodity codes used are: Soybeans – 1201 (Soybeans, whether or not broken); Cocoa beans – 1801 (Cocoa beans, whole or broken, raw or roasted); Coffee – 0901 (Coffee, whether or not roasted or decaffeinated; husks and skins); Palm oil – 1511 (Palm oil and its fractions, whether or not refined). Quantities are reported in kilograms and converted to tonnes (divided by 1,000). Data available from UN Comtrade. Reporters and partners selection guide can be accessed here. Last accessed 03/24/2026.

2. Application of deforestation and conversion-free measures that will mitigate these risks is crucial

Global trends are clear: by 2050 global food demand is set to double, while trade flows for forest-risk commodities are set to significantly increase, in some cases by up to 80%. Under business-as-usual scenarios, the expansion in production needed to facilitate this growth would almost certainly put vital ecosystems beyond tipping points, if it hasn't done so already. Ironically, elimination of natural biomes, and the ecosystem services that come with it, is resulting in lower agricultural yields and productivity, with an estimated USD 4 trillion in losses in the past 30 years, with increasing scientific evidence point to deforestation as a key culprit. Global case studies suggest that changes in precipitation patterns, disruption of watersheds, soil erosion, and land degradation are having profound impact on agricultural productivity and farmer profitability.

Correlation between deforestation and conversion and agricultural yields and incomes worldwide	
	**BRAZIL:** Deforestation and conversion in the Amazon and the Cerrado decreased soy yields by 6.6% or USD 760 million lost in soybean production. Meanwhile agricultural areas up to 100 km away from the frontier experience an average 3°C further intensifying heat stress for crops.
	**COLOMBIA:** 40% of national territory shows some level of erosion due to conversion and unsustainable agricultural use. Clearance of the Colombian Amazon resulted in $18 billion loss of natural capital.
	**ARGENTINA:** Unsustainable ranching practices in the Gran Chaco reduce productivity to 60-80 kg of meat per hectare per year compared to the 150–180 kg alternative in sustainable alternatives.
	**ETHIOPIA:** Deforestation linked to soil erosion and land degradation is estimated to lose over 1.5 billion tonnes of soil per year which could have added about 1.5 million tonnes of grains to the Ethiopian products.
	**INDONESIA:** Clearance of forests and peatlands for palm oil plantations increased the impact of seasonal floods, in the Aceh province displacing 158,000 people and destroying 11,500 hectares of agricultural land, while elsewhere decreasing the viability of palm oil production by 21% over the next 30 years.
	**COSTA RICA:** Coffee plantations located closer to native forests showed increased yields by up to 20% compared to those outside of forest range, and a 27% increase in quality.

For European policymakers the choice is clear: accept the growing risk that deforestation poses to its vulnerable supply chains and agricultural market stability, or work towards a much-needed global agricultural transition to sustainable and regenerative practices. This is a universal challenge that will require action from both consumer and producer countries. Restoring a fraction of the estimated 1.6 billion hectares globally that have been degraded due to human activities, coupled with more efficient and nature-friendly practices on existing agricultural lands, can help make this transition possible. Governments can play a significant role in making this possible by sending crucial market signals—be it regulatory, political, or collaborative measures—to encourage the re-direction of funding away from damaging conversion practices towards sustainable agriculture.

Implementation of DCF initiatives will play a vital role in paving the way for this global transition, while also mitigating risks to European markets and citizens. Investment in DCF measures via zero-conversion rules and commitments, traceability and monitoring, and zero-conversion agricultural production equips policymakers with a set of tools that can mitigate cross-cutting security and financial risks:

- **Avoiding conversion reduces physical risks to production stabilising sources of European commodity imports in the long-term.** Sourcing from low-risk areas and maintaining native vegetation will be crucial to mitigate the physical risks of land degradation and changing weather patterns that are already having an impact on agricultural yields.
- **Shift to deforestation-free production will make agricultural supply chains more financially viable.** Mainstreaming innovative, sustainable, and regenerative agricultural practices increases the likelihood of resilience in agricultural trade and avoids costs associated with physical risks—in some cases increasing the economic value of production.
- **Moving production away from high-risk areas can diversify Europe's commodity sourcing.** Investment in land restoration as an alternative to traditional production methods can provide consumer markets with better, more reliable production sites, eliminating the over-reliance on high-risk areas.
- **Traceability enables better and more transparent information flow, reducing risk.** Robust traceability systems, in addition to enforcement of deforestation-free goals, can help detect emerging supply chain shocks or illicit activities early.
- **DCF measures create mitigation and compliance tools for the private sector.** Regulatory frameworks, guidelines, and market signals can create tools that will encourage the private sector to more readily disclose—thereby mitigate risks to their own financial portfolios while redirecting investment towards better production models.

3. Avoiding deforestation is a tangible opportunity to advance Europe's international geopolitical and competitiveness goals

The introduction of the EUDR, despite its challenges, nevertheless acted as a landmark moment in sending a global market signal discouraging agricultural commodity trade flows from deforestation-risk areas. Europe is perhaps best positioned to continue to lead in this space: the EUDR is now the law of the land in the EU, the UK is developing its own forest-risk legislation, and European countries have a strong history of engagement with commodity producing markets. Previous regulatory efforts coming out of Europe, be it the REACH or the General Data Protection Regulation, have shown that Europe can utilise its market strength to set new standards globally, facilitating first mover advantage for the market. Establishment of DCF measures as the new international market norm can be a shift that Europe leads.

Previous and existing market signals coming out of Europe demonstrate the proof of concept behind DCF implementation. The Amazon Soy Moratorium, which for 20 years significantly reduced soy driven deforestation in the Amazon, was born out of European consumer pressure to eliminate deforestation-related goods from supermarket shelves. In addition to its impressive environmental outcomes, the agreement consistently enjoyed support from European retailers, seeing the predictability and reputational benefits it offered. Likewise, even prior to the full application of the EUDR, the prospect of the due diligence requirements resulted in the acceleration of commodity traceability programs, seeing the first fully DCF soy shipments from Argentina to Europe, or registration of 800,000 cocoa farmers into a digital traceability programme in Ghana.

Investment in DCF programs can be an opportunity for broader strategic cooperation with key trade partners. DCF measures are versatile; their implementation doesn't just affect environmental outcomes but covers trade, agriculture, food security, and digitalisation policies. Amidst growing pressure on agricultural food systems, producer countries seek better solutions to deal with their own production challenges. In Brazil, the government is implementing an ambitious programme to restore 40 million hectares of degraded pasture to future-proof their own commodity production. Should this programme be successful, it would effectively fulfil Europe's own zero-conversion objectives. These shared goals open up pathways to cooperation that are mutually beneficial for both consumer and producer markets, strengthening geopolitical partnerships at a time of global uncertainty.

Projections suggest that the global sustainable products market size is set to more than double by 2035, driven in part due to European consumer demand. The global food traceability market is also set to double by 2030, and Europe holds a 32.5% share of this market. Similarly, European firms and institutions lead in satellite monitoring and traceability solutions with Airbus, Copernicus Earth Observation Programme, or NICFI's satellite data programme as world leaders in this space, with global applications of these programs.

Maintaining clear signals around implementation of DCF measures will be crucial in maintaining market confidence, thereby supporting European industry leading in the ag-tech space. This is particularly important as Europe establishes new trade agreements with key partners. The prospect of the EU-MERCOSUR agreement can create pathways for technological and information exchange around innovative agricultural solutions that are currently pursued in both consumer and producer countries.

4. Recommendations for European policymakers to capitalize on the security and resilience benefits of supporting DCF production

1. **Maintain and build on existing deforestation-free regulatory frameworks** to reinforce the market signal already created, provide clarity to European and non-European private sector amidst delays to the EUDR, enable transparency in European supply chains, and continue to decouple Europe from high-risk commodity sourcing areas.
2. **Develop voluntary incentive mechanisms that favours DCF commodity imports**, such as tariff reliefs or simplified fast-tracked procedures for DCF goods, to further incentives avoidance of forest-risk products.
3. **Conduct a supply chain risk prioritisation mapping exercise** to generate an evidence-based database that identifies where its import dependencies overlap with highest levels of deforestation and ecosystem conversion, enabling public institutions to strategically apply their DCF efforts.
4. **Link financial zero-conversion contributions to strategic objectives** to ensure that in times of budgetary constraints, the transition to the transition to zero-conversion agriculture remains a priority due to its importance in contributing towards European strategic objectives.
5. **Create better DCF investment tools** to redirect European financial flows towards sustainable agricultural and deforestation-free production by streamlining existing systems such as EU Taxonomy to add deforestation and conversion as a top priority.
6. **Prioritise bilateral agreements with producer countries on deforestation-free and sustainable agriculture measures**, through new agreements, Memorandum of Understandings, or joint work programmes that supports producers in meeting the preferred DCF requirements as well as sending a clear market signal of Europe's commitment to sustainable agriculture transition.
7. **Embed DCF clauses in existing and future trade agreements**, setting clear expectations with trade partners on deforestation exposure risks, providing clearer regulatory environment for European companies, and creating conditions for greater technical cooperation in this area.
8. **Establish a whole-of-government taskforce on deforestation and land conversion** to better reflect the multi-faceted nature of the challenge, given deforestation impacts on European security, financial, legal, and trade policies, and encourage relevant government departments to coordinate in a more effective manner.

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Author: Matthew Sielski; **Economic Data Analyst:** Andrew Hall; **Contributors:** Leandro Baumgarten, Laura Calderon, Andy Cawley, Sarah Gammage, Dharma George, Catalina Gongora, Louise Heffernan, Andras Krolopp, Thiago Maason, Maria Alejandra Riaño, Martha Rogers, Rachel Young

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